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STATE ALSO FOR AF/E AND AF/EPS

STATE PASS USTR PATRICK COLEMAN
STATE PASS USAID/EA
STATE PASS USITC FOR ALAN TREAT, RALPH WATKINS, AND ERLAND
HERFINDAHL
STATE PASS TO DEPT OF TRANSPORTATION FOR CORNELIA HUNTER
TREASURY FOR REBECCA KLEIN
COMMERCE FOR BECKY ERKUL
AGRICULTURE FOR US FOREST SERVICE
TSA FOR JILLENE MACCREERY, CARLOS DE LA TORRE, AND MIRIAM MOSES
FAA FOR DONNA KRIMSKI
FAA REPRESENTATIVE DAKAR
SIPDIS

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SUBJECT: KENYA ECONOMIC HIGHLIGHTS: LATE NOV/EARLY DEC '08

REF: A) Nairobi 1692 B) Nairobi 2710

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- [1](#)1. (SBU) CENTRAL BANK PREPS FOR ECONOMIC HEADWINDS

Central Bank Governor N'dung'u recently indicated to us that the global recession would significantly hamper Kenya's economic recovery from post-election violence. Emphasizing exports as the key to the country's growth, the Governor said cut flowers, tea, and tourism would take hits. To help safeguard Kenya, the Governor is now increasing market liquidity by cutting the benchmark Central Bank Rate from 9 to 8 percent and its cash reserve ratio from 6 to 5 percent. Unfortunately, inflation - which rose again in November to 29.4 percent on rising food prices - continues to hinder growth and erode purchasing power; 46 percent of Kenyans live on less than \$2/day.

The GOK also is grappling with a mounting budget deficit - revenue collection fell 9 percent below its third quarter target of 119 billion KShs. Despite the deficit and bleak economic outlook, Kenyan MPs - some of the highest paid in the world - have rejected a call to have their generous allowances (approx. \$96,000/yr) taxed. Some good news: transport fuel costs have begun to decline in response to falling international oil process.

Overall, all of our interlocutors in business and economic analysis are telling us that while the global economic crisis has already begun to bite, the full effect is still 4-6 months away. With Kenya's major foreign exchange earners (remittances, tourism, cut flowers, coffee and tea) all sensitive to global income shifts, it appears inevitable that, combined with the downturn resulting from the post-election violence, Kenya will be hit hard by the global crisis.

12. (SBU) DEMAND FOR KENYAN TEA FALLS SHARPLY

The international auction price for Kenyan tea has dropped over 30 per cent since September, rocking a key forex earning industry. The United Kingdom and Pakistan, both facing official recessions, are the top two markets for Kenyan tea.

13. (SBU) TEA WORKERS GET PAY HIKE; GOK FORMS LABOR BOARD

More than 270,000 Kenyan tea workers have received a 20 percent salary increase. According to the Kenya Plantation and Agricultural Workers Union, tea factory workers will now earn 254 Kshs/day (about \$3.40/day), while tea pickers will get 6.97 Ksh (93 cents)/kilogram picked. In announcing the pay hike, the union also warned multinational tea companies of strikes if automated tea plucking machines were introduced.

Labor Minister Munyes has formed a National Labor Board, which includes employee, employer and government representatives. The Board is responsible for ensuring implementation of the country's labor laws and developing ways to enhance productivity. Kenya's private sector maintains that the labor laws (including provisions for paternity leave and 96 months of disability pay) are too costly, while workers contend that salaries haven't kept pace with inflation and temporary employment is rarely converted to fulltime in accordance with the law.

14. (SBU) INTERPOL-KWS MAKE PROGRESS ON POACHING

As part of an Interpol-organized operation ("Operation Baba") the Kenya Wildlife Service (KWS) recently arrested 36 persons (including three Chinese nationals) suspected of trafficking in ivory and wildlife parts. The directors of the KWS elephant and rhino programs told visiting Embassy Addis Ababa REO Kirsten Bauman that very little poaching is occurring in Nairobi National Park but otherwise they believe the CITES decision to allow a one-off ivory sale to China will spur elephant poaching.

15. (SBU) PM CONTINUES PRIVATE SECTOR ENGAGEMENT

On November 19, Prime Minister Odinga held his second roundtable with key elements of the Kenyan private sector. The CEO of the Kenya Private Sector Alliance (KEPSA) Kevit Desai told us that the PM's efforts to engage with business are "deepening understanding" between the two sides. Desai said that the roundtable is resulting in some private sector concerns around barriers to trade and movement of goods (e.g. the conversion of the Port of Mombasa into a 24 hour facility) being addressed by government. It has also been an opportunity for business to update government on the negative effects of the global economic crisis in Kenya and the tough times expected over the next year.

16. (SBU) CORRUPTION: FORMER FINANCE MINISTER CLEARED

Former Finance Minister Amos Kimunya has been reportedly cleared of wrongdoing by the Cockar Commission which investigated the sale of the Grand Regency Hotel by the GOK to the Libyan company LAICO. The Commission did, apparently, conclude that Kimunya, who was not interviewed by the panel, should have advised the Central Bank on how to sell the property. That said, the issue is in a holding pattern. Though it appears the Executive has cleared Kimunya, there is still the outstanding issue of the Parliamentary Committee's ruling that he's unfit. This means that if President Kibaki re-appoints Kimunya as Finance Minister, Parliament may punish Kibaki/Kimunya by stalling any finance-related legislation. Kibaki may now be looking for another role for Kimunya. Kimunya is a member of the president's inner circle, so the president may try to find another post for him to avoid conflict with Parliament. There is speculation of Kimunya taking Acting Finance Minister Michuki's Environment portfolio or even heading the Ministry of Transport.

Ref A provides background on Kimunya's involvement with the Grand Regency sale.

17. (SBU) MAU FOREST ROUNDTABLE WITH REO BAUMAN

Representatives from Kenya's National Environment Management Authority (NEMA) and the Forest Service uniformly praised PM Odinga and Environment Minister John Michuki for standing firm on their decision to protect Kenya's five "water towers." They confided to REO Kirsten Bauman that protecting these highlands is indispensable to safeguarding Kenya's hydroelectric power generation, the Mara River which waters the Maasai Mara wildlife reserve, and rivers which feed Lake Victoria, Lake Turkana, Lake Nakuru, and several other Rift Valley lakes. An estimated 5.5 million Kenyans involved in tea and rice cultivation, livestock rearing, and tourism depend on the Mau watershed. The annual market value of their activities is approximately \$300 million. In the past ten years, squatters, loggers, and charcoal makers have denuded 250,000 acres of forest. See ref B for a comprehensive update/analysis on the Mau situation.

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